

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

CONSTITUTION LIFE INSURANCE COMPANY
McKinney, Texas

**AS OF
August 1, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: September 15, 2005

CONSTITUTION LIFE INSURANCE COMPANY
TABLE OF CONTENTS

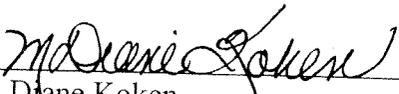
Order	
I. Introduction	2
II. Scope of Examination	5
III. Company History and Licensing	6
IV. Advertising	7
V. Forms	8
VI. Producer Licensing	10
VII. Consumer Complaints	13
VIII. Underwriting	14
A. Underwriting Guidelines	14
B. Medicare Supplement Policies Issued	15
C. Medicare Supplement Replacement Policies Issued	15
D. Individual Life Insurance and Medicare Supplement Policies Terminated	16
E. Individual Medicare Supplement Policies Not-Taken	18
F. Individual Policies Declined	18
G. Individual Life Policies Issued	19
IX. Claims	22
A. Prompt Payment of Clean Claims Paid Over 45 Days	23
B. Individual Life Claims	24
C. Individual Medicare Supplement Claims Denied	25
D. Individual Medicare Supplement Claims Pending	26
X. Recommendations	28
XI. Company Response	30

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
CONSTITUTION LIFE INSURANCE	:	Sections 605, 623 and 903(a) of
COMPANY	:	the Insurance Department Act, Act of
600 Courtland Street	:	May 17, 1921, P.L. 789, No. 285
Orlando, FL 32804	:	(40 P.S. §§ 235, 253 and 323.3)
	:	
	:	Sections 354, 404-A and 2166(A) and
	:	(B) of the Insurance Company Law,
	:	Act of May 17, 1921, P.L. 682, No.
	:	284 (40 P.S. §§ 477b, 625-4 and
	:	991.2166)
	:	
	:	Section 5(a)(10)(i) through (vi) of
	:	the Unfair Insurance Practices Act,
	:	Act of July 22, 1974, P.L. 589, No.
	:	205 (40 P.S. § 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	51.29, 81.4(a), 81.5(b), 81.6(c)(10),
	:	83.3, 83.4a, 83.4b, 83.55a, 83.55b,
	:	154.18(c) and 146.6
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC05-09-002

CONSENT ORDER

AND NOW, this *15th* day of *SEPTEMBER*, 2005, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of

Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

- (a) Respondent is Constitution Life Insurance Company, and maintains its address at 600 Courtland Street, Orlando, Florida 32804.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2003 to December 31, 2003.

- (c) On August 1, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on August 31, 2005.
- (e) After consideration of the August 31, 2005 response, the Insurance Department has modified the Examination Report as attached.
- (f) The Examination Report notes violations of the following:
 - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;
 - (ii) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;
 - (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order

that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (iv) Section 354 of the Insurance Company Law (40 P.S. § 477b), which prohibits issuing, selling, or disposing of any policy, contract or certificate until the forms have been submitted to, and formally approved by, the Insurance Commissioner;

- (v) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

- (vi) Section 2166(A) and (B) of Insurance Company Law, No. 284 (40 P.S. § 991.2166), which provides: (A) A licensed insurer or a managed care plan shall pay a clean claim submitted by a health care provider within 45 days of receipt of a clean claim, and (B) If a licensed insurer or a managed care plan fails to remit the payment as provided under subsection (A), interest at 10% per annum shall be added to the amount owed on the clean claim. Interest shall be calculated beginning the day after the required payment date and ending on the date the claim is paid. The licensed insurer shall not be required to pay any interest calculated to be less than two dollars;
- (vii) Section 5(a)(10)(i) through (vi) of Act 205 (40 P.S. § 1171.5), relating to unfair or deceptive acts or practices in the business of insurance, states that any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:
- (i) Misrepresenting pertinent facts or policy or contract provisions relating to coverage at issue;
 - (ii) Failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies;
 - (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies;
 - (iv) Refusing to pay claims without conducting a reasonable investigation based upon all available information;

- (v) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed and communicated to the company or its representative;
- (vi) Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which the company's liability under the policy has become reasonably clear;
- (viii) Title 31, Pennsylvania Code, Section 51.29(a) and (b), which states an advertisement shall not directly or by implication falsely represent that a contract or combination of contracts is an introductory, initial, or special offer, or that applicants will receive substantial advantages not available later or that the offer is available only to a specified group of individuals; and (b) An advertisement shall not directly or by implication falsely represent that only a number of policies will be sold, or that a time is fixed for the discontinuance of the sale or the particular policy advertised;
- (ix) Title 31, Pennsylvania Code, Section 81.4(a), which states the agent or broker who initiates the application shall submit to the insurer to which an application for life insurance or annuity is presented, with or as part of each application, a statement signed by the applicant as part of each application as to whether replacement of existing life insurance or annuity is involved in the transaction; a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction;

- (x) Title 31, Pennsylvania Code, Section 81.5(b), which requires the insurer, as part of a completed application for life insurance or annuity, require a statement signed by the applicant regarding whether the proposed insurance or annuity will replace existing life insurance or annuity;
- (xi) Title 31, Pennsylvania Code, Section 81.6(c)(10), which requires the replacing insurer to maintain evidence of the notice regarding replacement of life insurance and annuities;
- (xii) Title 31, Pennsylvania Code, Section 83.3, which requires written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;
- (xiii) Title 31, Pennsylvania Code, Section 83.4a and 83.4b, which states (a) the agent shall submit to the insurer with or as part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant, and (b) the insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute *prima facie* evidence that no disclosure statement was provided to the prospective purchaser of life insurance;

- (xiv) Title 31, Pennsylvania Code, Sections 83.55a and 83.55b, which states
- (a) the agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant, and
 - (b) the insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years, or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance;
- (xv) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;
- (xvi) Title 31, Pennsylvania Code, Section 154.18(c), which requires interest due to a health care provider on a clean claim shall be calculated and paid by the licensed insurer or managed care plan to the health care provider and shall be added to the amount owed on the clean claim. The interest shall be paid within 30 days of the payment of the claim; and

- (xvii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Deputy Insurance Commissioner makes the following Conclusions of Law:
- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
 - (b) Violations of Sections 605 and 623 of the Insurance Department Act (40 P.S. §§ 235 and 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.
- (iii) issue an order to cease and desist.
- (iv) impose such other conditions as the department may deem appropriate.

(c) Respondent's violations of Section 354 of The Insurance Company Law are punishable by the following, under Section 354 of The Insurance Company Law (40 P.S. § 477b):

- (i) suspension or revocation of the license(s) of Respondent;
- (ii) refusal, for a period not to exceed one year thereafter, to issue a new license to Respondent;
- (iii) imposition of a fine of not more than one thousand dollars (\$1,000.00) for each act in violation of the Act.

(d) Respondent's violations of Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to

renew the license, or impose a civil penalty of not more than \$5,000 per violation.

- (e) Respondent's violations of Section 2166(A) of the Insurance Company Law (40 P.S. § 991.2166) are punishable under Section 2182 of the Insurance Company Law, which states the Department may impose a penalty of up to five thousand dollars (\$5,000.00) for a violation of this article.

- (f) Respondent's violations Section 5(a)(10)(i) through (vi) of the Unfair Insurance Practices Act (40 P.S. § 1171.5) are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):
 - (i) cease and desist from engaging in the prohibited activity;

 - (ii) suspension or revocation of the license(s) of Respondent.

- (g) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
 - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).
- (h) Respondent's violations of Title 31, Pennsylvania Code, Sections 81.4, 81.5 and 81.6 are punishable under Title 31, Pennsylvania Code, Section 81.8(b) and (c), which provide failure to comply, after a hearing, may subject a company to penalties provided in 40 P.S. § 475. Failure to comply shall be considered a separate violation and may not be considered in lieu of a proceeding against the company for a violation of 40 P.S. §§472, 473 or 474. In addition, failure to make the disclosure may be considered a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 to 1171.15);
- (i) Respondent's violations of Title 31, Pennsylvania Code, Section 83.3, 83.4 and 83.5 are punishable under Title 31, Pennsylvania Code, Section 83.6:
 - (i) For failing to insure adequate disclosure of basic information, after a hearing, a company may be subject to the penalties provided under 40 P.S. § 475, for violations of 40 P.S. §§ 472 through 474. In

addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§ 1171.1 through 1171.15.

- (j) Respondent's violations of Title 31, Pennsylvania Code, Section 146.6, are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9), as above.

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.

(d) Respondent shall pay Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate

action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

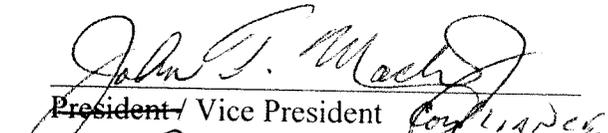
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

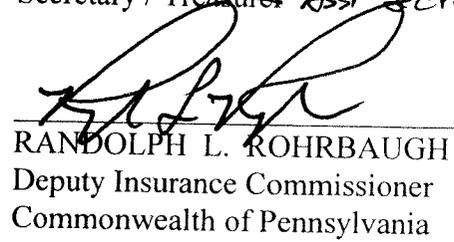
BY: CONSTITUTION LIFE INSURANCE
COMPANY, Respondent



President / Vice President *Compliance*



Secretary / Treasurer *Asst Secretary*



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

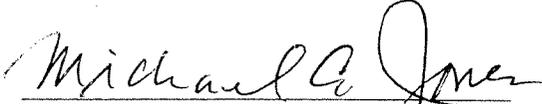
The Market Conduct Examination was conducted on Constitution Life Insurance Company, hereafter referred to as "Company," at the Company's offices located in Orlando, Florida, May 18, 2004, through July 1, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

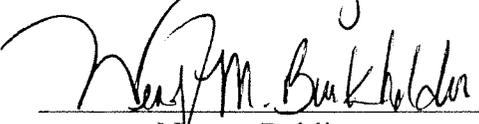
Verification

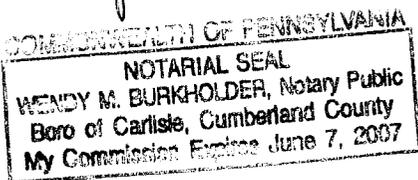
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


Michael Jones, Examiner in Charge

Sworn to and Subscribed Before me

This 1 Day of August, 2005


Notary Public

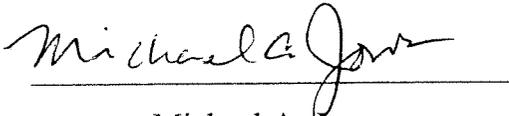


The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is hereby acknowledged.

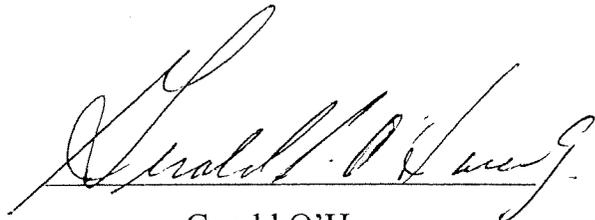
The undersigned participated in this Examination and in the preparation of this Report.



Dan Stemcosky, AIE, FLMI
Market Conduct Division Chief



Michael A. Jones
Market Conduct Examiner



Gerald O'Hara
Market Conduct Examiner



Lonnie L. Suggs
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2003, through December 31, 2003, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Forms, Producer Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

Constitution Life Insurance Company on June 11, 1929, and commenced business the same day. Originally incorporated as Sterling Insurance Company, the present title was adopted in 1956. During 1990, the Company redomesticated from Illinois to Kentucky and in 1995 it redomesticated to Texas.

The Company is licensed in District of Columbia and all states except New Jersey and New York.

As of their December, 2003, annual statement for Pennsylvania, Constitution Life Insurance Company reported direct premium for ordinary life insurance in the amount of \$10,331; and direct premium for accident and health in the amount of \$15,327,553.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that “Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department.” The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

The Company provided a list of 11 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Classified Ads, Newspaper Ads and a brochure. The 11 advertising materials were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. No violations were noted.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, riders, endorsements and applications used in order to determine compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b), as well as provisions for various mandated benefits. Applications and claim forms were also reviewed to determine compliance with Title 18, Pa. C.S., Section 4117(k). The following violations were noted.

31 Violations – Insurance Company Law, Section 354 (40 P.S. §477b)

It shall be unlawful for any insurance company, association, or exchange, including domestic mutual fire insurance companies, doing business in this Commonwealth, to issue, sell, or dispose of any policy, contract, or certificate, covering life, health, accident, personal liability, fire, marine, title, and all forms of casualty insurance or contracts pertaining to pure endowments or annuities, or any other contracts of insurance, or use applications, riders, or endorsements, in connection therewith, until the forms of the same have been submitted to and formally approved by the Insurance Commissioner. The following forms were not filed and approved. The application form number, description and frequency of use are listed in the table below.

Form Number	Description	Frequency of Use
CMS 97 APP	Application	7
CLUN1001 (02-02)	Application	24

2 Violations - Title 18 PA. C.S., Section 4117(k)

All applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.” The 2 applications noted did not contain or have attached the required fraud statement. The application form number, description and frequency of use are listed in the table below.

Form Number	Description	Frequency of Use
CMS97APP	Health Application	2

VI. PRODUCER LICENSING

The Company was requested to provide a list of all agents/producers active and terminated during the experience period. Section 605 (40 P.S. §235) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. Section 623 (40 P.S. §253) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. Title 31, Pennsylvania Code, Section 37.61 requires the Company to report all agent terminations to the Department.

Effective June 4, 2003, Insurance Department Act, No. 147, Licensing of Insurance Producers, replaced Section 601 through Section 663 of the Insurance Department Act and any sections of Title 31, Pennsylvania Code, Chapter 37 which are inconsistent with the new statute.

The Company provided a list of 168 active agents and brokers and 4 terminated agents during the experience period. All 172 agents were compared to departmental records of agents to verify appointments, terminations and licensing. The following violations were noted.

6 Violations – Insurance Department Act, Section 605 (40 P.S. §235)

- (a) No agent shall do business on behalf of any entity without a written appointment from that entity.
- (b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.

- (c) Insurance entities authorized to do business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
- (d) Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

The Company failed to certify and submit an appointment fee to the Insurance Department for the following agent. The company listed this agent as active; however, department records did not indicate the appointment.

AGENT
Mark Carrier

The following 5 individuals were listed as agents on applications reviewed in the underwriting sections of the exam. Department records do not identify these individuals as being appointed by the Company.

AGENT
Timothy Riggs
Suzan K. Richar
David Mc Cknahan
Millard G. Engle
G. Roger Holt

1 Violation – Insurance Department Act, Section 623 (40 P.S. §253)

Any entity or the appointed agent of any entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree.

The following individual was listed as an agent for the Company; however Department records did not identify him as holding a Pennsylvania insurance license.

AGENT
Millard G. Engle

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaints logs for the prior 4 years. There were 10 consumer complaints submitted directly to the Department. The Company supplied an additional list of 12 consumer complaints received during the experience period. All 12 consumer complaint files were requested, received and reviewed. The files were reviewed to determine compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), and the Unfair Insurance Practices Act, No. 205, Section 5(a)(11) (40 P.S. §1171). No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 7 general segments.

- A. Underwriting Guidelines
- B. Medicare Supplement Policies Issued
- C. Medicare Supplement Replacement Policies Issued
- D. Individual Life Insurance and Medicare Supplement Policies Terminated
- E. Individual Medicare Supplement Policies Not-Taken
- F. Individual Policies Declined
- G. Individual Life Policies Issued

Each segment was reviewed for compliance with underwriting practices and included forms identification and agent identification. Issues relating to forms or agent/broker licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

The Company was requested to provide copies of all established written underwriting guidelines in use during the experience period. Underwriting guidelines were reviewed to ensure guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature, or specifically prohibited by statute or regulation. The Company provided underwriting guidelines for SL 2000, Plans 1 & 2, Senior Security Life products and Medicare Supplement coverage. No violations were noted.

B. Medicare Supplement Policies Issued

The Company was requested to provide a list of all Medicare Supplement policies issued during the experience period. The Company provided a list of 403 policies issued. A random sample of 100 policies was requested. Of the 100 policies requested, 1 file was determined to be a duplicate. The 99 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

24 Violations -Title 31 Pennsylvania Code, Section 51.29

- (a) An advertisement shall not directly or by implication falsely represent that a contract or combination of contracts is an introductory, initial, or special offer, or that applicants will receive substantial advantages not available later or that the offer is available only to a specified group of individuals.
- (b) An advertisement shall not directly or by implication falsely represent that only a number of policies will be sold, or that a time is fixed for the discontinuance of the sale or the particular policy advertised. The 24 files noted contained an application form **CL-UN1001 (02-02)** that included the misleading statement “Limited Time Offer”.

C. Medicare Supplement Replacement Policies Issued

The Company was requested to provide a list of all Medicare Supplement replacement policies issued during the experience period. The Company provided a list of 212 policies issued. All 212 policy files were requested and received. Of the 212 policies received, 30 policy files were not Medicare Supplement policies

issued as replacements. The remaining 182 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

6 Violations - Title 31, Pennsylvania Code, Section 81.6(c)10

The replacing insurer shall maintain evidence of the notice regarding replacement of life insurance and annuities. The 6 files noted did not contain a copy of the required notice of replacement or the replacement form was not complete.

D. Individual Life Insurance and Medicare Supplement Policies Terminated

The Company was requested to provide a list of all life insurance and Medicare Supplement policies terminated during the experience period. The Company identified a universe of 87 policies terminated. All 87 life insurance and Medicare Supplement policies terminated were requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions termination laws and regulations and proper return of any unearned premium. The following violations were noted.

1 Violation – Insurance Department Act, Section 903 (40 P.S. §323.3)

Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily verify the financial condition of the Company or person and ascertain whether the Company or person has complied

with the laws of this Commonwealth. The file noted was missing the applicant's signature that is required on an amendment to the application.

1 Violation – Title 31, Pennsylvania Code, Section 81.4(a)

The agent or broker who initiates the application shall submit to the insurer to which an application for life insurance or annuity is presented, with or as part of each application.

(1) A statement signed by the applicant as part of each application as to whether replacement of existing life insurance or annuity is involved in the transaction. A signed statement as to whether the agent or broker knows replacement is or maybe involved in the transaction. The agent's replacement question in the file noted was not completed.

1 Violation - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the file noted.

2 Violations – Title 31, Pennsylvania Code, Section 83.3

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. The 2 files noted did not contain a disclosure form.

2 Violations -Title 31, Pennsylvania Code, Section 83.4

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 2 files noted did not contain a copy of the agent's certification of disclosure.

E. Individual Medicare Supplement Policies Not-Taken

The Company was requested to provide a list all individual health policies not-taken during the experience period. The Company identified a universe of 27 individual Medicare Supplement policies not-taken. A random sample of 10 files was requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured decides not to accept the contract. The files were reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

F. Individual Policies Declined

The Company was requested to identify all individual policies declined during the experience period. The Company identified a universe of 3 individual life policies

and 28 Medicare Supplement policies declined. All 31 policy files were requested, received and reviewed. No violations were noted.

G. Individual Life Policies Issued

The Company identified a universe of 11 individual senior security life policies issued during the experience period. Of the 11 life policy files requested, one was found to be a duplicate and another was identified as not-taken. The remaining 9 policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

3 Violations - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The 3 files noted were missing the signed amendment form.

9 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The 9 files noted did not contain a disclosure form.

9 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 9 files noted did not contain a copy of the agent's certification of disclosure.

8 Violations – Title 31, Pennsylvania Code, Sections 83.55a and 83.55b

(a) The agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant.

(b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. The agent's certification of the surrender comparison index disclosure delivery was not evident in the 8 files noted.

4 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the producer delivers the individual policy or annuity to the policyholder by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer.

When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of policy delivery could not be established in the 4 files noted.

IX. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period.

The Company reported that the life claims department does not have a formal procedural manual and provided the Department with an overview of their handling of the death claims. A review was done of the Company's health claims procedure guides, dated July 1, 2003, and the claims audit quality assurance Program.

The claim manuals and procedures were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claim file review consisted of 4 areas:

- A. Prompt Payment of Clean Claims Paid Over 45 Days
- B. Individual Life Claims
- C. Individual Medicare Supplement Claims Denied
- D. Individual Medicare Supplement Claims Pending

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Act 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Prompt Payment of Clean Claims Paid Over 45 Days

The Company identified a universe of 206,347 claims paid during the experience period. Of the 206,347 claims paid during the period, 328 claims were identified as clean claims paid over 45 days from date of receipt. A random sample of 100 clean claims paid over 45 days was requested, received and reviewed. The purpose of the review was to verify compliance with Section 2166 of the Insurance Company Law, “Prompt Payment of Provider Claims”.

328 Violations – Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims (A)

A licensed insurer or a managed care plan shall pay a clean claim submitted by a health care provider within forty-five (45) days of receipt of the clean claim. The reason for the sample file review was to validate the accuracy of the report data provided by Company. The 328 claim files noted were clean claims not paid within 45 days.

4 Violations – Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims (B)

If a licensed insurer or a Managed Care Plan Fails to remit payment as provided under subsection (a), interest at ten per centum (10%) per annum shall be added to the amount owed on the clean claim, interest shall be calculated beginning the day after the required payment date and ending on the date the claim is paid. The licensed insurer or managed care plan shall not be required to pay any interest calculated to be less than two (\$2) dollars. The Company failed to pay the required interest on the 4 claims noted.

4 Violations – Title 31, Pennsylvania Code. Section 154.18(c) Prompt Payment

Interest due to a health care provider on a clean claim shall be calculated and paid by the licensed insurer or managed care plan to the health care provider and shall be added to the amount owed on the clean claim. The interest shall be paid within 30 days of the payment of the claim. The Company failed to pay the interest within the required 30-day timeframe on the 4 claims noted.

B. Individual Life Claims

The Company was requested to provide a list of all individual life claims received during the experience period. The Company identified a universe of 8 life claims. All 8 life claims was requested, received, and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, and Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide a timely status letter for the claim noted.

C. Individual Medicare Supplement Claims Denied

The Company was requested to provide a list of all individual Medicare supplement claims denied during the experience period. The Company identified a universe of 17,231 claims denied. A random sample of 100 files was requested, received and reviewed. The following violations were noted.

3 Violations – Unfair Insurance Practices Act, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

(i) Misrepresenting pertinent facts or policy or contract provisions relating to coverage at issue.

(ii) Failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies.

- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (iv) Refusing to pay claims without conducting a reasonable investigation based upon all available information.
- (v) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed and communicated to the company or its representative.
- (vi) Not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which the company's liability under the policy has become reasonably clear.

Based upon the information provided in the 3 Medicare Supplement claims noted, the Company did not conduct a reasonable investigation to ascertain its liability and failed to affirm or deny coverage. The reason for denial in the 3 claims noted was that the policy was not in effect. Upon further investigation the 3 policies were actually converted policies from one coverage plan to another and never paid by the Company. The Company should review all claims denied for "Policy not in effect" and pay any unpaid claims incorrectly processed.

D. Individual Medicare Supplement Claims Pending

The Company was requested to provide a list of all claims pended during the experience period. The Company identified a universe of 41 claims pended. All 41 claim files were requested, received reviewed. The following violation was noted.

**1 Violation – Insurance Company Law, Section 2166 (40 P.S. §991.2166),
Prompt Payment of Provider Claims (A)**

A licensed insurer or a managed care plan shall pay a clean claim submitted by a health care provider within forty-five (45) days of receipt of the clean claim. One pending claim file was noted as a paid claim over 45 days. The claim file noted was a clean claim paid over 45 days.

XI. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other violations, noted in the Report.

1. The Company must implement procedures to ensure compliance with requirements of Section 2166 of the Insurance Company Law of 1921 (40 P.S. §991.2166), relating to prompt payment of provider claims.
2. The Company must revise control procedures to ensure interest is added to the claim amount as required by Section 2166 of the Insurance Company Law of 1921 (40 P.S. §991.2166). The Company must provide to the Insurance Department within 30 days of the Report issue date proof of interest payment on the claims noted in the examination.
3. The Company must review and revise internal control procedures to ensure compliance with prompt payment of interest requirements of Title 31, Pennsylvania Code, Section 154.18.
4. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
5. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
6. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A, Section 671-A and Section 671.1-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71 and 310.71a).

7. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
8. The Company must implement procedures to ensure advertising requirements of Title 31, Pennsylvania Code, Chapter 51.
9. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.
10. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
11. The Company must review internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. §477b).
12. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).
13. The Company must review internal control procedures to ensure compliance with claim investigation requirements of Section 5 of the Unfair Insurance Practices Act (40 P.S. §1171.5) and to provide for the correct reimbursement of the claims noted in Section C, Medicare Supplement Claims Denied. The Company is also to investigate all other claims denied for "Policy not in effect" to ensure proper claim handling procedures were followed. The Company must provide the Department proof of proper claim reimbursement to the effected claimants within 30 days of the Report finalization date.

XII. COMPANY RESPONSE

August 31, 2005

Daniel A. Stemcosky
Market Conduct Division Chief
Pennsylvania Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, Pennsylvania 17120

RE: Examination Warrant Number: 03-M11-026.

Dear Mr. Stemcosky:

Enclosed is the Company's response to the Report of Examination of Constitution Life Insurance Company covering the period January 1, 2003 through December 31, 2003.

Under separate cover, we will provide the documentation you requested and look forward to working with you and your staff to resolve the issues raised by the examination.

Should you have any questions, please contact me at the address above or by telephone at 800-882-1054, extension 8448.

Sincerely,



Brian R. Jacobs
Assistant Vice President
Government Relations Department

BRJ:jr

Enclosures

XII. COMPANY RESPONSE

1. The Company must implement procedures to ensure compliance with the requirements of Section 2166 of the Insurance Company Law of 1921 (40 P.S. ss991.2166), relating to prompt payment of provider claims.

The Company does have procedures in place to ensure compliance with the requirements of Section 2166 of the Insurance Company Law of 1921 (40 P.S. ss991.2166) relating to prompt payment of provider claims. The violations cited were a one time occurrence caused by an electronic error when the claims processing was moved to a new location. Once the error was discovered, all effected claims were paid immediately.

2. The Company must revise control procedures to ensure interest is added to the claim amount as required by Section 2166 of the Insurance Company Law of 1921 (40 P.S. ss991.2166). The Company must provide to the Insurance Department within 30 days of the Report issue date proof of interest payment on the claims noted in the examination.

The Company does have procedures in place to ensure interest is added to the claim as required by Section 2166 of the Insurance Company Law of 1921 (40 P.S. ss991.2166). The Company will provide proof of interest payments on the claims noted in the examination.

3. The Company must review and revise internal control procedures to ensure compliance with prompt payment of interest requirements of Title 31, Pennsylvania Code, Section 154.18.

The Company reviewed its procedures to ensure interest is paid promptly as required by Title 31, Pennsylvania Code, Section 154.18. If interest is due, in most instances it is added to the claim payment.

4. The company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117 (k).

The Company does have procedures in place to ensure compliance with Title 18, Pennsylvania Consolidated Statutes Section 4117 (k). The Company does have the correct fraud statement on the approved application. See attached application CMS 97 APP PA.

5. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

The Company has reviewed its internal control procedures to ensure compliance with Title 31, Pennsylvania Code, Chapter 146 relating to Unfair Claims Settlement Practices in providing a timely claim status letter.

6. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A, Section 671-A and Section 671.1A of the Insurance Department Act of 1921 (40 P.S. ss310.41a, 310.71 and 310.71a).

The Company has reviewed its Licensing procedures to ensure compliance with the Insurance Department Act, No. 147 Licensing of Insurance Producers effective June 4, 2003. New agent files are audited to ensure appointment completed.

7. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. ss323.3).

The Company has reviewed its procedures to ensure complete and proper record keeping required to comply with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. ss323.3).

8. The Company must implement procedures to ensure advertising requirements of Title 31, Pennsylvania Code, Chapter 51.

It is the Company's position regarding CLUN1001 (02-02) is that the indication of the limited time offer is valid as this is not an introductory, initial or special offer and the applicants do not receive any advantages not available at a later time, nor is the offer available to a specific group of individuals. However, if the offer is not taken within the limited time offer period, a new application would have to be completed.

The Company respectfully requests the 24 violations be removed.

9. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.

The Company has reviewed internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Section 81. Applications are reviewed to ensure replacement question is completed and if applicable replacement forms are completed properly.

10. The Company must review internal procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Section 81.

The Company has reviewed internal procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Section 81. A copy of the disclosure form is attached and has been distributed to all agents.

11. The Company must review internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. ss477b).

The Company has reviewed internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. ss477b).

Please note that form number CMS APP 97 should read CMS 97 APP. The number of violations cited for frequency of use for CMS 97 APP remains 5.

Please note that form number CL-ORD LIFE 10/98 is not an application. It is a Proof Of Death – Ordinary Life Claimant’s Statement. The Company respectfully asks that you remove the 4 violations cited.

12. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. ss625-4).

The Company does have procedures in place to ensure compliance relating to the delivery requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. ss625-4). The Company provides the producer with delivery receipt forms. A copy is given to the policy owner a copy is and a copy is returned to the Home Office. For those policies not hand delivered, the Company provides a 5 working day mailing period before the examination (Free Look) period begins. Additional time is given to allow for weather delays or other circumstances on a case by case basis.

13. The Company must review internal control procedures to ensure compliance with claim investigation requirements of Section 5 of the Unfair Insurance Practices Act (40 P.S. ss1171.5) and to provide for the correct reimbursement of the claims noted in Section C, Medicare Supplement Claims Denied. The Company is also to investigate all other claims denied for "Policy not in effect" to ensure proper claim handling procedures were followed. The Company must provide the Department proof of proper claim reimbursement to the effected claimants within 30 days of the Report finalization date.

The Company reviewed internal control procedures to ensure compliance with claim investigation requirements of Section 5 of the Unfair Insurance Practices Act (40 P.S. ss1171.5). A report identifying all claims denied for "Policy not in effect" has been reviewed to ensure proper claim handling procedures were followed. The Company will provide the Department proof of proper claim reimbursement to any effected claimants within 30 days of Report finalization date.

THE APPLICANT, TO THE BEST OF HIS/HER KNOWLEDGE AND BELIEF, REPRESENTS AND AGREES AS FOLLOWS:

(1) The statements and answers given in this application, and in any supplements or amendments to it, will form the basis of, and be made a part of, any policy which may be issued; (2) Any incorrect or incomplete information on this application may result in loss of coverage or claim denial; (3) No insurance under this application can become effective until: (a) the Company has approved the application; (b) the Company has issued the policy; (c) the policy has been delivered to me; (d) in the event the policy is issued other than applied for, I have accepted the policy; and (e) I have paid the first premium. When such approval, issue, delivery, acceptance and payment have occurred, the insurance will take effect on the Issue Date stated in the policy; and (4) No agent or medical examiner may change the application, receipt, or policy being applied for, nor waive any right, requirement or provision, nor can any agent or medical examiner pass on or approve insurability of any proposed insured.

REPRESENTATION: The Applicant acknowledges receipt of the appropriate Outline(s) of Coverage and the Medicare Supplement Buyer's Guide.

Caution: If your answers on this application are incorrect or untrue, the company has the right to deny benefits or rescind your policy.

Dated at City/Town _____ State PA Zip _____ This 24TH Day of JANUARY, 2003

Applicant's Signature: X _____ **IMAGING**
JAN 29 2003

As the Agent,

- a. The following is a list of any other health insurance policies I have sold the Applicant which are still in force. (If none, print "NONE".)
NONE
- b. The following is a list of any other health insurance policies I have sold the Applicant in the past five (5) years, but are no longer in force. (If none, print "NONE".)
NONE
- c. I certify that the Applicant's answers to the questions were fully and accurately recorded in the application, and that the Outline of Coverage and Buyer's Guide have been given to the Applicant. I have reviewed the Applicant's current accident and health insurance coverage, if any. I find that the indicated replacement, if any, and coverage of the type applied for is appropriate for the Applicant's needs.

Licensed Resident Agent's Signature X _____ No. _____

Agent's Name (Please Print) _____

TELEPHONE INTERVIEW INFORMATION: In order to complete the consideration of your application, a Constitution Life telephone interviewer may contact the Applicant by telephone within the next few days at the location and time indicated below. Your cooperation is appreciated and will aid the prompt processing of your application.

Convenient time when the Applicant may be reached by telephone:

Applicant's Telephone Number: _____
 8:00 a.m. to 12:00 p.m. 12:00 p.m. to 5:00 p.m.

Special interview requests: _____

NOTICE: Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement or claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.



PENNSYLVANIA DISCLOSURE STATEMENT

THIS DISCLOSURE STATEMENT WITH ALL APPLICABLE BLANKS FILLED IN IS FOR YOUR PROTECTION. IT GIVES YOU BASIC INFORMATION ABOUT THE COST AND COVERAGE OF THE INSURANCE BEING SOLICITED. READ IT CAREFULLY BEFORE SIGNING ANY AGREEMENT TO BUY LIFE INSURANCE.

THIS DISCLOSURE STATEMENT SHALL NOT BE CONSIDERED AS AN OFFER TO CONTRACT OR AS ALTERING OR MODIFYING ANY POLICY OR RIDER THAT MAY BE ISSUED.

Name of Proposed Insured _____ Age _____ Sex _____

*Name of Agent preparing disclosure _____

*Agent home or agency address _____

*Telephone number of Agent _____ Name of Insurer: Constitution Life Insurance Co.

Home Office Address of Insurer: 1001 Heathrow Park Lane, Lake Mary, Florida 32746

Direct all correspondence to the administrative office at: PO Box 13547, Pensacola, Florida 32591

	Descriptive Title of Coverage	Face amount of coverage (1) if not applicable, Description of Coverage	Annual Premium (2) If not known, premium for mode quoted
*Policy		\$	\$
*Rider(s)		\$	\$
*Supplemental Benefit(s) (built into policy)		\$	The cost is included in the premium for the policy

*(1) The face amount of coverage of the (policy, rider, supplemental benefit) changes as follows: N/A

*(2) The premium for the (policy, rider) changes; the ultimate (annual, monthly, etc.) premium will be N/A at N/A policy year (age). Total (Initial) (annual, monthly, etc.) premium for the policy and rider will be N/A.

*Retirement Income. Your policy is designed to pay a guaranteed retirement income of N/A starting at N/A (age, year) for (life), but not for less than 10 years.

***If inapplicable to insurance being offered, section may be clearly marked "Not Applicable."**

*Guaranteed Cash Value. If you continuously pay your premiums on this policy as they come due, you will have the following guaranteed cash value for each \$1,000 (or face amount).

*You may borrow against this cash value at an annual 6 % loan interest charge.

Number of Years Policy
Has Been in Force:

5	10	20	AGE 65
---	----	----	-----------

Total Accumulated
Cash Value per \$1,000
(or Total Face Amount):

\$ _____ \$ _____ \$ _____ \$ _____

*Dividends. The following is a dividend illustration for your policy based on the current interest, mortality and expense experience of the company as reflected in the dividends currently paid. However, the illustrations are not a guarantee of what future dividends will be. *Payment of a dividend is contingent upon the payment of the next premium due.

Number of Years Policy
Has Been in Force:

10	20
----	----

Illustrated Dividend for that
Individual Year per \$1,000
(or Face Amount):

\$ _____ N/A _____ \$ _____ N/A _____

*A Surrender Comparison Index will be provided upon delivery of the policy or earlier if requested. This Index provides one means of comparing the relative costs of two or more similar policies. *The prospective insured has ___ has not ___ requested an earlier delivery of the Index. Upon request either the company or agent will furnish you with additional information about the insurance described.

***If inapplicable to insurance being offered, section may be clearly marked "Not Applicable."**

CERTIFICATION OF DELIVERY OF DISCLOSURE STATEMENT

I hereby certify that I have delivered this Disclosure Statement at the time of application.

Signature of Agent

Date